

20.03 General Purpose Financial Statements

Financial Reporting

The Annual Comprehensive Financial Report (ACFR) of a governmental entity consists of three sections:

- Introductory
- Financial
- Statistical

The introductory section will include a transmittal letter and the statistical section will include financial, economic, and demographic information. The focus of the accounting, however, is the financial section, which consists of five components:

1. Management discussion & analysis (MD&A)
2. Government-wide F/S
3. Fund F/S
4. Notes to the F/S
5. Required supplementary information (RSI) other than MD&A

1 - Management Discussion & Analysis (MD&A)

The first section of the financial report is a discussion by management of the significant activities of the government as a whole during the reporting period and for the future. It also provides an overview of the government's financial activities. MD&A is considered to be Required Supplementary Information (RSI). Items to be included are:

- **Comparison with prior year** – A brief discussion of the F/S with an analysis of amounts that changed considerably from the preceding year.
- **Overall F/S** – Condensed information from the government-wide F/S to follow with discussion of overall results.
- **Individual fund statements** – Key account information from the individual fund statements to follow with analysis of individually significant accounts.
- **Variance analysis** – Discussion of major differences between the original and final budgets for the year and actual results for the year.
- **Long-term activities** – Discussion of significant capital asset and long-term debt activity for the year, and the condition of infrastructure assets.
- **Expected events** – Descriptions of known facts, decisions, and conditions that may have a significant effect on future financial position and results of operations.

2 - Government-Wide Financial Statements

The financial statement presentation in the second section of the financial report consists of two F/S for the overall government entity:

- Statement of Net Position
- Statement of Activities

The government-wide F/S are prepared on the **economic resources measurement focus** and **accrual** basis of accounting. All activities of the primary government are included, except for fiduciary activities, as well as discretely presented component units.

These statements are designed to provide information about **operational accountability**, which shows how effective and efficient the organization has been at using its resources, and the resources available to meet its future obligations.

2a – Statement of Net Position

The Statement of Net Position is a type of balance sheet, except that the form is:

Assets
+ Deferred *outflows* of resources
– Liabilities
– Deferred *Inflows* of resources
Net Position

- This format is called the **Net Position Format**, which is encouraged, although a *balance sheet format* is also permitted (assets + deferred outflows of resources = liabilities + deferred inflows of resources + net position). Regardless of which format is used, however, the statement of net position will report the residual amount as the **net position**, consisting of **three components**:
 - **Net investment in capital assets** – Computed by taking the value of capital (fixed) assets, less accumulated depreciation, less the debt associated with the acquisition, construction, or improvement of the capital assets.
 - **Restricted net position** – Consists of restricted assets net of liabilities and deferred inflows of resources that are related to restricted assets.
 - **Unrestricted net position** – The residual amount.
- Terms like net assets, fund balance, or equity should not be used.
- It is preferred to present assets and liabilities in order of liquidity.

There are **four columns** on the **Statement of Net Position**:

- **Governmental activities** – Activities that are financed primarily through taxes and other nonexchange transactions.
 - This column reports the consolidated results of all **governmental and internal service funds**.
 - The presentation uses **accrual** accounting, even though the government funds are all modified accrual funds.

- Capital assets are reported and depreciated in the asset section, and long-term debt is included in the liability section.
- Interfund transactions within this column are eliminated, so that the internal service fund is often effectively eliminated. Interfund transactions within the enterprise and fiduciary funds are not eliminated, however, so the government as a whole is not actually consolidated.
- **Business-type activities** – Activities that are normally financed through user charges.
 - This reports the consolidated results of all the **enterprise funds**. Note that it does not include internal service funds, which were accounted for in the governmental column.
 - **Accrual** accounting is used here as in the individual fund accounting.
 - Interfund transactions among the various enterprise funds are eliminated, but not transactions with other fund types.
- **Total** – This column simply adds together the amounts from the two primary government columns for governmental and business-type activities. Note that fiduciary activities were not reported in either of the two previous columns, so this total doesn't actually reflect all of the net assets held by the government.
- **Component units** – Legally separate organizations for which the elected officials of a primary government are financially accountable.
 - This column reports the combined results of all the component units for which separate reporting was selected (those receiving blended treatment were already included in one of the first two columns of this statement).
 - No eliminations are made. (Components will be discussed in further detail later.)

Deferred Outflows and Deferred Inflows of Resources

When the government consumes net assets, it is considered an outflow of resources if it is applicable to the current reporting period. **Deferred outflows** of resources represent the consumption of net assets that are applicable to a future reporting period. Deferred outflows of resources are not assets but are similar in that they have a positive effect on net position.

- Prepaid rent would *not* be an example of a deferred outflow. This is because the outflow of resources, cash, is matched by the inflow of resources, prepaid rent and, as a result, net position has not decreased.
- *Grant expenditures made in advance* of the grantee meeting timing requirements on the other hand, is a deferred outflow. The outflow of resources, cash, is not matched by an inflow of resources and, as a result, net position has decreased.

Similarly, inflows of resources are acquisitions of net assets that are applicable to the current reporting period. **Deferred inflows** of resources are basically the opposite of deferred outflows of resources. They are acquisitions of net assets that are applicable to a future reporting period. Deferred inflows are not liabilities, but they are similar in that they have a negative effect on net position.

- Deferred revenue, for example, would not be an example of a deferred inflow. This is because the inflow of resources, cash, is matched by incurring an obligation to perform, a liability and, as a result, net position has not increased.
- *Grant funds received in advance* of the grantee meeting timing requirements on the other hand, is a deferred inflow. The inflow of resources, cash, is not matched by an obligation as the grant funds would have been received with the passage of time and, as a result, net position has increased.

There is still a lot of confusion as to when an item is an asset or liability and when it is a deferred outflow or deferred inflow of resources, respectively. GASB 65 was issued to provide some clarification.

Many items that result from government activities may be considered deferred outflows of resources or deferred inflows of resources, depending on which side of the transaction the governmental entity is on. Some of the items that are addressed include:

- Current and advanced debt refunding
 - Reacquisition cost in excess of carrying value is a deferred outflow.
 - Carrying value in excess of reacquisition cost is a deferred inflow.
- Nonexchange revenue transactions
 - Imposed nonexchange revenues, such as property taxes, received or accrued in advance are deferred inflows.
 - Government-mandated and voluntary nonexchange transactions paid or received before timing requirements are met are deferred outflows or deferred inflows, respectively.
- Sales of future revenues
 - Amounts paid for the rights are deferred outflows.
 - Proceeds from sale are deferred inflows.
- Sale and leaseback transactions
 - Deferred losses are deferred outflows.
 - Deferred gains are deferred inflows.
- Grants
 - Expenditures paid before timing requirements have been met are deferred outflows.
 - Amounts received before timing requirements have been met are deferred inflows.
- Qualified hedging derivatives
 - A negative fair value is a deferred outflow.
 - A positive fair value is a deferred inflow.

If deferred outflows or deferred inflows are disclosed in the aggregate, the notes to the F/S should describe the details of what is included in the net amounts.

Assets and Liabilities

Examples of items that remain as assets and liabilities include:

- Government-mandated nonexchange revenue transactions
 - Amounts transmitted before eligibility requirements are met, other than timing requirements, are deferred outflows and reported as assets.
 - Amounts received before eligibility requirements are met, other than timing requirements, are deferred inflows and reported as liabilities.
- Prepaid insurance is recognized as an asset
- Commitment fees received for a commitment to originate or purchase a loan are generally recognized as liabilities

Current Outflows and Current Inflows

GASB also describes items that are recognized as current outflows (expenditures), and current inflows (revenues):

- Debt issue costs, other than prepaid insurance costs, are recognized as an expense as incurred.
- Acquisition costs related to insurance activities are recognized as an expense as incurred.
- Loan origination fees other than points that are part of lending activities
 - Are recognized as revenue when received.
 - Are recognized as expense when incurred.
- Purchases of loans
 - Amounts paid to purchase loans are recognized as expense
 - Fees received related to the purchase of loans are recognized as revenues

2b – Statement of Activities

The Statement of Activities reports revenues and expenses similar to an income statement, on the full **accrual** basis.

- This is a consolidated statement except that interfund transactions are not eliminated, when those transactions are between governmental and business-type activities, and between the primary government and discretely presented component units.
- Expenses are reported by function.
- Revenues are also reported on the accrual basis and may be exchange revenues or nonexchange revenues.

Program revenues – Those that are directly associated with the functional expense categories—are deducted to arrive at the net expense or revenue. Program revenues include (but are not limited to):

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Grants and contributions are reported in the function to which their use is restricted.

The **net (expense) or revenue** is broken out between governmental activities, business-type activities, and component units, the same as in the Statement of Net Position.

General revenues include all taxes levied by the reporting government and other nonexchange revenues not restricted to a particular program.

After that, separate additions or deductions are made for special items, extraordinary items, and transfers (between categories).

If a government had contributions to term and permanent endowments and contributions to permanent fund principal, these would also be shown after general revenues.

Finally, the net position at the beginning and end of the year are reconciled.

Sample City
STATEMENT OF NET POSITION
December 31, 20X1

	Primary government			
	Governmental activities	Business-type activities	Total	Component units
<u>Assets</u>				
Cash and cash equivalents	\$ 13,597,899	\$ 10,279,143	\$ 23,877,042	\$ 303,935
Investments	27,365,221	-	27,365,221	7,428,952
Receivables (net)	12,833,132	3,609,615	16,442,747	4,042,290
Internal balances	175,000	(175,000)	-	-
Inventories	322,149	126,674	448,823	83,697
Capital assets, net of acc dep (Infrastructure)	<u>170,022,760</u>	<u>151,388,751</u>	<u>321,411,511</u>	<u>37,744,786</u>
Total assets	<u>224,316,161</u>	<u>165,229,183</u>	<u>389,545,344</u>	<u>49,603,660</u>
<u>Deferred outflows</u>				
-Grant Expenditures paid in advance of meeting timing requirements				
-Deferred Loss from sale/leaseback				
-Payment to acquire rights to future parking revenue				
<u>Liabilities</u>				
Accounts payable	6,783,310	751,430	7,534,740	1,803,332
Deferred revenue	1,435,599	-	1,435,599	38,911
Noncurrent liabilities:				
Due within one year	9,236,000	4,426,286	113,652,286	1,426,539
Due in more than one year	<u>83,302,378</u>	<u>74,482,273</u>	<u>157,784,651</u>	<u>27,106,151</u>
Total liabilities	<u>100,757,287</u>	<u>79,659,989</u>	<u>180,417,276</u>	<u>30,375,033</u>
<u>Deferred inflows</u>				
-Grant amounts received in advance of meeting timing requirements				
-Deferred Gain from Sale/leaseback				
<u>Net Position</u>				
Net Investment in capital assets	103,711,386	73,088,574	176,799,960	15,906,392
Restricted for:				
Capital projects	11,705,864	-	11,705,864	492,445
Debt service	3,020,708	1,451,996	4,472,704	-
Community development projects	4,811,043	-	4,811,043	-
Other purposes	3,214,302	-	3,214,302	-
Unrestricted (deficit)	<u>(2,904,429)</u>	<u>11,028,624</u>	<u>8,124,195</u>	<u>2,829,790</u>
Total net position	<u>\$123,558,874</u>	<u>\$ 85,569,194</u>	<u>\$209,128,068</u>	<u>\$19,228,627</u>

Sample City
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 20X1

		Program revenues			Net (expense) revenue and changes in net Position			
Functions/Programs	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			Component units
					Governmental activities	Business-type activities	Total	
<u>Primary government</u>								
Governmental activities:								
General government	\$ 9,571,410	\$ 3,146,915	\$ 843,617	\$ -	\$ (5,580,878)	\$ -	\$ (5,580,878)	\$ -
Public safety	34,844,749	1,198,855	1,307,693	62,300	(32,275,901)	-	(32,275,901)	-
Public works	10,128,538	850,000	-	2,252,615	(7,025,923)	-	(7,025,923)	-
Engineering services	1,299,645	704,793	-	-	(594,852)	-	(594,852)	-
Health and sanitation	6,738,672	5,612,267	575,000	-	(551,405)	-	(551,405)	-
Cemetery	735,866	212,496	-	-	(523,370)	-	(523,370)	-
Culture and recreation	11,532,350	3,995,199	2,450,000	-	(5,087,151)	-	(5,087,151)	-
Community development	2,994,389	-	-	2,580,000	(414,389)	-	(414,389)	-
Education (payment to school district)	21,893,273	-	-	-	(21,893,273)	-	(21,893,273)	-
Interest on long-term debt	6,068,121	-	-	-	(6,068,121)	-	(6,068,121)	-
Total governmental activities	<u>105,807,013</u>	<u>15,720,525</u>	<u>5,176,310</u>	<u>4,894,915</u>	<u>(80,015,263)</u>	-	<u>(80,015,263)</u>	-
Business-type activities:								
Water	3,595,733	4,159,350	-	1,159,909	-	1,723,526	1,723,526	-
Sewer	4,912,853	7,170,533	-	486,010	-	2,743,690	2,743,690	-
Parking facilities	2,796,283	1,344,087	-	-	-	(1,452,196)	(1,452,196)	-
Total business-type activities	<u>11,304,869</u>	<u>12,673,970</u>	-	<u>1,645,919</u>	-	<u>3,015,020</u>	<u>3,015,020</u>	-
Total primary government	<u>\$117,111,882</u>	<u>\$28,394,495</u>	<u>\$5,176,310</u>	<u>\$6,540,834</u>	<u>(80,015,263)</u>	<u>3,015,020</u>	<u>(77,000,243)</u>	-
<u>Component units</u>								
Landfill	\$ 3,382,157	\$ 3,857,858	\$ -	\$ 11,397	-	-	-	487,098
Public school system	31,186,498	705,765	<u>3,937,083</u>	-	-	-	-	<u>(26,543,650)</u>
Total component units	<u>\$ 34,568,655</u>	<u>\$ 4,563,623</u>	<u>\$3,937,083</u>	<u>\$11,397</u>	-	-	-	<u>(26,056,552)</u>
<u>General revenues:</u>								
<u>Taxes:</u>								
Property taxes, levied for general purposes					51,693,573	-	51,693,573	-
Property taxes, levied for debt service					4,726,244	-	4,726,244	-
Franchise taxes					4,055,505	-	4,055,505	-
Public service taxes					8,969,887	-	8,969,887	-
Payment from Sample City					-	-	-	21,893,273
Grants and contributions not restricted to specific programs					1,457,820	-	1,457,820	6,461,708
Investment earnings					1,958,144	601,349	2,559,493	881,763
Miscellaneous					884,907	104,925	989,832	22,464
Special item—gain on sale of park land					2,653,488	-	2,653,488	-
Transfers					501,409	(501,409)	-	-
Total general revenues, special items, and transfers					<u>75,900,977</u>	<u>204,865</u>	<u>77,105,842</u>	<u>29,259,208</u>
Change in net Position					(3,114,286)	3,219,885	105,599	3,202,656
Net Position—beginning					<u>126,673,160</u>	<u>82,376,829</u>	<u>209,033,689</u>	<u>16,025,971</u>
Net Position—ending					<u>\$123,558,874</u>	<u>\$85,596,714</u>	<u>\$209,139,288</u>	<u>\$19,228,627</u>